

Portland District Library

**Financial Statements
With Supplemental Information
June 30, 2006**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Portland District Library	County Ionia
Fiscal Year End June 30, 2006	Opinion Date October 26, 2006	Date Audit Report Submitted to State December 11, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

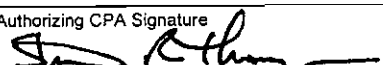
YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) BIGGS, HAUSSEMAN, THOMPSON & DICKINSON		Telephone Number 616-642-9467	
Street Address 356 EAST MAIN ST		City SARANAC	State MI
		Zip 48881	
Authorizing CPA Signature 		Printed Name Steven R. Thompson	License Number 1101012375

Portland District Library

June 30, 2006

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Independent Auditor's Report

Independent Auditor's Report

To the Library Board
Portland District Library
Portland, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Portland District Library as of and for the year ended June 30, 2006, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of Portland District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Portland District Library as of June 30, 2006 and respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Portland District Library's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Biggs, Hausserman, Thompson & Dickinson

BIGGS, HAUSSERMAN, THOMPSON & DICKINSON, P.C.
Certified Public Accountants

October 26, 2006

Management's Discussion and Analysis

Portland District Library
Management's Discussion and Analysis
June 30, 2006

This section of the Portland District Library's annual financial report represents our discussion and analysis of the Library financial performance and is intended to assist the reader in focusing on significant financial issues, provide an overview of the Library's financial activity, identify changes in the Library's financial position and its ability to address the next and subsequent year challenges. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2006.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Portland District Library financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Library, presenting both an aggregate view of the Library finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant funds, the General Fund, Capital Projects Fund, and Debt Retirement Fund with all other funds presented in one column as nonmajor funds. The annual report is organized as follows:

Management's Discussion & Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Reporting the Library as a Whole - Government-wide Financial Statements

One of the most important questions asked about the Library is, "Is the Library as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Library's financial statements, report information on the Library as a whole and its activities in a way that helps you answer this question. We prepare these statements to include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Portland District Library
Management's Discussion and Analysis
June 30, 2006

These two statements report the Library's net assets- the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the Library's financial health, or financial position. Over time, increases or decreases in the Library's net assets - as reported in the Statement of Activities - are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Library's operating results. However, the Library's goal is to provide services to our residents, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the information provided.

The Statement of Net Assets and Statement of Activities report the governmental activities for the Library, which encompass all of the Library's services. Property taxes and State penal fines finance most of these activities.

Reporting the Library Most Significant Funds – Fund Financial Statements

The Library's fund financial statements provide detailed information about the most *significant funds* - not the Library as a whole. Some funds are required to be established by State law and by bond covenants. However, the Library establishes many other funds to help it control and manage money for particular purposes (like the Capital Projects Fund) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Library use the following accounting approach:

Governmental funds - All of the Library's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the operations of the Library and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation.

Portland District Library
Management's Discussion and Analysis
June 30, 2006

The Library as a Whole

The Statement of Net Assets provides the perspective of the Library as a whole. Table 1 provides a summary of the Library net assets as of June 30, 2006 and 2005:

Table 1:

	Governmental Activities	
	2006	2005
Current and other assets	\$ 546,224	\$ 723,152
Capital assets	3,851,847	3,810,603
Total assets	4,398,071	4,533,755
Current and other liabilities	119,603	258,972
Long-term liabilities	2,665,000	2,760,000
Total liabilities	2,784,603	3,018,972
Net assets		
Invested in capital assets, net of related debt	1,091,847	965,603
Restricted debt service	91,012	93,816
Restricted - capital projects	-	113,306
Unrestricted	430,609	342,058
Total net assets	\$ 1,613,468	\$ 1,514,783

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Library governmental activities is discussed below. The Library's net assets were \$1,613,468 at June 30, 2006. Invested in capital assets, net of related debt totaling \$1,091,847 compares the original cost, less depreciation of the Library capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approval property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Library's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$430,609 was unrestricted.

Portland District Library

Management's Discussion and Analysis

June 30, 2006

The \$430,609 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Library as a whole are reported in the Statement of Activities (Table 2), which shows the changes in net assets for fiscal year 2006 and 2005.

Statement of Activities Summary

TABLE 2

Revenues	Governmental Activities	
	2006	2005
Program revenues		
Charges for services	\$ 12,954	\$ 7,042
Grants and Catagoricals	14,715	5,731
General Revenues		
Property taxes	433,031	411,764
Penal fines	91,146	91,146
Other general revenues	58,890	80,497
Total revenues	610,736	596,180
Functions/Program Expenses		
Culture and recreation	404,947	238,602
Interest on long-term debt	107,104	108,891
Total expenses	512,051	347,493
Increase (decrease) in net assets	\$ 98,685	\$ 248,687

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$512,051. Certain activities were partially funded by those who benefited from service (\$12,954), governments and organizations that subsidized certain programs with grants and catagoricals (\$14,715). We paid for the remaining "public benefit" portion of our governmental activities with \$433,031 in taxes, \$91,146 in state penal fines, and with our other revenues, like interest and other revenues.

The Library experienced an increase in net assets of \$98,685.

As discussed above, the net cost shows the financial burden that was placed on the State and the Library taxpayers. Since property taxes for operations and penal fines constitute the vast majority of Library's operating revenue sources, the Library Board and Administration must annually evaluate the needs of the Library and balance those needs with anticipated available State unrestricted resources.

The Library Funds

As we noted earlier, the Library uses funds to help it control and manage money for particular purposes. Looking at funds helps you consider whether the Library is being accountable for the resources taxpayers and others provide to it but may also give you more insight into the Library overall financial health.

Portland District Library
Management's Discussion and Analysis
June 30, 2006

The Library Funds – (Continued)

As the Library completed this year; our governmental funds reported a combined fund balance of \$539,172, which is a decrease of \$27,913 from last year.

The general fund's fund balance shows an increase of \$88,551. This is due to an excess of revenues over expenditures and funds transferred from the capital projects funds.

The capital projects funds showed a decrease of approximately \$113,306. This is due to the final expenditures for the expansion and renovation of the existing Library building and a transfer of the remaining assets to the general fund.

The debt service fund showed a decrease of approximately \$3,158. Millage rates are determined annually to ensure that the Library accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

The Uniform Budget Act requires that the Board approve the original budget for the upcoming year prior to July 1.

Over the course of the year, the Library's practice is to revise the budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure expenditures do not exceed appropriations.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the Library had \$3,851,847 invested in a broad range of capital assets, including land, buildings, furniture and equipment.

		Capital Assets at Year-end	
		June 30	
		2006	2005
Land and Buildings	\$	3,639,714	\$ 3,605,397
Furniture and equipment		212,133	205,206
Total capital assets	\$	<u>3,851,847</u>	<u>\$ 3,810,603</u>

Portland District Library
Management's Discussion and Analysis
June 30, 2006

Debt

At the end of this year, the Library had \$2,760,000 in bonds outstanding versus \$2,845,000 last year – a decrease of \$85,000. Those bonds consisted of:

	Outstanding Debt at Year-end	
	<u>June 30, 2006</u>	<u>June 30, 2005</u>
General obligation bonds	<u>\$ 2,760,000</u>	<u>\$ 2,845,000</u>

We present more detailed information about our long-term liabilities in the Notes to the Financial Statements.

Economic Factors and Next Year's Budgets and Rates

The library's main funding sources of operating property tax millage and state penal fines generally constitutes 90% of the revenue received by the library. This is not expected to change during the upcoming year. This year was the first full year of operations with the expanded library facilities. The additional operating expenditures are now known and will be appropriately budgeted.

Contacting the Library Financial Management

This financial report is designed to provide the Library's citizens, taxpayers, customers, and investors and creditors with a general overview of the Library finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Jan Mosser
Librarian
Portland District Library
334 Kent Street
Portland, MI 48875
(517) 647-6981

Governmental – Wide Financial Statement

Portland District Library
Statement of Net Assets
June 30, 2006

	Governmental <u>Activities</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 117,318
Investments	333,245
Due from other governments	95,661
Total current assets	<u>546,224</u>
Non current assets	
Capital assets	4,325,966
Less: accumulated depreciation	<u>(474,119)</u>
Net capital assets	<u>3,851,847</u>
Total assets	<u><u>\$ 4,398,071</u></u>
Liabilities	
Current liabilities	
Accounts payable	\$ 2,599
Accrued payroll and other liabilities	4,453
Accrued expense	17,551
Long-term liabilities due within one year	
Bonds payable- due within one year	<u>95,000</u>
Total current liabilities	<u>119,603</u>
Noncurrent Liabilities	
Bonds payable-due in more than one year	<u>2,665,000</u>
Total Liabilities	2,784,603
Net Assets	
Investment in capital assets- net of related debt	1,091,847
Restricted - debt service	91,012
Unrestricted	<u>430,609</u>
Total net assets	<u><u>\$ 1,613,468</u></u>

Portland District Library
Statement of Activities
June 30, 2006

	Program Revenues			Governmental
	Expenses	Charges for Service	Operating Grants/Contributions	Activities
				Net (Expenses) Revenues and Changes in Net Assets
Functions/Programs				
Governmental activities:				
Culture and recreation	\$ 404,947	\$ 12,954	\$ 14,715	\$ (377,278)
Interest on long- term debt	107,104	0	0	(107,104)
Total governmental activities	<u>\$ 512,051</u>	<u>\$ 12,954</u>	<u>\$ 14,715</u>	(484,382)
General revenues:				
Taxes				
Property taxes, levied for general purpose				244,264
Property taxes, levied for debt service				188,767
Penal fines not restricted to specific purposes				91,146
Interest and investment earnings				10,384
Other				<u>48,506</u>
Total general revenues				<u>583,067</u>
Changes in net assets				<u>98,685</u>
Net assets- beginning of year				<u>1,514,783</u>
Net assets-end of year				<u>\$ 1,613,468</u>

Fund Financial Statements

Portland District Library
Governmental Funds
Balance Sheet
June 30, 2006

	General Fund	Capital Projects	Debt Fund	Total Governmental Funds
Assets				
Cash	\$ 8,755	\$ 0	\$ 108,563	\$ 117,318
Investments	333,245	0	0	333,245
Due from other governments	95,661	0	0	95,661
Total assets	<u>\$ 437,661</u>	<u>\$ 0</u>	<u>\$ 108,563</u>	<u>\$ 546,224</u>
Liabilities and fund equity				
Liabilities				
Accounts payable	\$ 2,599	\$ 0	\$ 0	\$ 2,599
Payroll taxes payable	4,453	0	0	4,453
Total liabilities	<u>7,052</u>	<u>0</u>	<u>0</u>	<u>7,052</u>
Fund Equity				
Fund balances				
Designated for debt retirement	0	0	108,563	108,563
Designated	335,410	0	0	335,410
Undesignated	95,199	0	0	95,199
Total fund equity	<u>430,609</u>	<u>0</u>	<u>108,563</u>	<u>539,172</u>
Total liabilities and fund equity	<u>\$ 437,661</u>	<u>\$ 0</u>	<u>\$ 108,563</u>	<u>\$ 546,224</u>

Portland District Library
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds to Net Assets
June 30, 2006

Total Fund Balances- Governmental Funds	\$ 539,172
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Amounts reported for governmental activities
in the statement of net assets are different because:

Capital assets used in government activities are not
financial resources, and are not reported in the funds

Capital assets cost:	\$ 4,325,966	
Accumulated depreciation:	<u>(474,119)</u>	
Net Capital Assets		3,851,847

Long term and other liabilities are not due and payable
in the current period and are not reported in the funds

Bonds Payable	(2,760,000)	
Accrued Interest	<u>(17,551)</u>	
Net assets of governmental activities		<u><u>\$ 1,613,468</u></u>

Portland District Library
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2006

	Major Funds			
	General	Capital Projects	Debt Fund	Totals
Revenues				
Property Taxes	\$ 244,264	\$ 0	\$ 188,767	\$ 433,031
Penal fines	91,146	0	0	91,146
Grants	14,715	0	0	14,715
Interest	9,578	273	533	10,384
Miscellaneous	53,150	8,310	0	61,460
Total revenues	412,853	8,583	189,300	610,736
Expenditures				
Wages	169,979	0	0	169,979
Payroll taxes	14,327	0	0	14,327
Books	34,891	0	0	34,891
Periodicals	3,719	0	0	3,719
Supplies	5,301	0	0	5,301
Programs	2,033	0	0	2,033
Repairs and maintenance	28,310	0	0	28,310
Audio Visual	14,173	0	0	14,173
Computer Expense	10,780	0	0	10,780
Co-op fees	7,208	0	0	7,208
Insurance	11,431	0	0	11,431
Memberships and dues	720	0	0	720
Utilities	39,601	0	0	39,601
Professional services	7,980	0	0	7,980
Miscellaneous	2,297	0	0	2,297
Capital outlay	0	93,441	0	93,441
Debt Service				
Redemption of bonds/notes	0	0	85,000	85,000
Interest and fiscal charges	0	0	107,458	107,458
Total expenditures	352,750	93,441	192,458	638,649
Excess of revenues over (under) expenditures	60,103	(84,858)	(3,158)	(27,913)
Other financing sources (uses)				
Operating transfers in	28,448	0	0	28,448
Operating transfers out	0	(28,448)	0	(28,448)
Total other financing sources (Uses)	28,448	(28,448)	0	0
Excess (deficiency) of revenues over expenditures and other sources (uses)	88,551	(113,306)	(3,158)	(27,913)
Fund balances at beginning of year	342,058	113,306	111,721	567,085
Fund balances at end of year	\$ 430,609	\$ 0	\$ 108,563	\$ 539,172

See accompanying notes to financial statements.

Portland District Library
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to Statement of Activities
Year Ended June 30, 2006

Net Change in Fund Balances- Total Governmental funds	\$	(27,913)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds reported capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense		(100,511)
Capital outlay		141,755

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		354
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		85,000
		85,000

Change in Net Assets of Governmental Activities	\$	98,685
		98,685

Portland District Library

Notes to Financial Statements

June 30, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Portland District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

Reporting Entity

The Library is governed by an appointed Board. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Library's reporting entity, and which organizations are legally separate, component units of the Library. Based on the application of the criteria, the district does not contain any component units.

Governmental-Wide and Fund Financial Statements

The governmental-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Library's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Portland District Library

Notes to Financial Statements

June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Governmental-Wide Statements – The governmental-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Library reports the following major governmental funds:

The General Fund is the library primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

Capital Projects funds are used to account for the construction of fixed assets.

Debt Retirement Funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Portland District Library

Notes to Financial Statements

June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments. Investments are stated at fair value.

Property Taxes

Property taxes and other revenues that are both measurable and available for use to finance operations are recorded as revenues when earned.

Properties are assessed as a December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

As part of the Ionia County Library Services contract, Ionia County levies the appropriate operating millage on a countywide basis. The County Treasurer is responsible for collecting the property taxes. The Treasurer will then remit the appropriate share to each library within the County, after settlement is made with the various taxing agencies within the County.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. The government defines capital assets as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Library does not have infrastructure type assets.

Buildings, equipments, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Furniture and other equipment	5-20 years

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Portland District Library

Notes to Financial Statements

June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

Comparative Data/Reclassifications – Comparative data is not included in the Library's financial statements.

Use of Estimates - The preparation of financial statements requires estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2 – Stewardship, Compliance and Accountability

Budgetary Information – Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Library to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were no amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds – The Library did not have significant expenditure budget variances.

Note 3 – Deposits and Investments

At year-end, the library deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities
Cash and cash equivalents	\$ 117,318
Investments	333,245
	<u>\$ 450,563</u>

The breakdown between deposits and investments for the Library is as follows:

Deposits (checking and savings accounts, certificates of deposit)	\$ 450,334
Petty cash and cash on hand	<u>229</u>
Total	<u>\$ 450,567</u>

The deposits of the Library were reflected in the accounts of the Financial Institution at \$450,334, of which \$261,091 is covered by federal depository insurance. The remaining balance of \$189,243 was uninsured and uncollateralized.

Portland District Library

Notes to Financial Statements

June 30, 2006

Note 3 – Deposits and Investments (Continued)

State statutes and the Library's investment policy authorize the Library to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; the Library is allowed to invest in U.S. Treasury or Agency obligation, U.S. Government repurchases agreements, bankers' acceptances, commercial paper rated prime at the same time of purchases which mature not more than 270 days after the date of purchases, mutual funds and investment pools that are composed of authorized investment vehicles. The Library's deposits are in accordance with statutory authority.

Note 4 – Receivables

Receivables as of year-end for the library individual major funds and the non-major and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund
Receivables:	
Intergovernmental	<u>\$ 95,661</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. The library had no deferred revenue at year-end.

Note 5 – Capital Assets

Capital asset activity of the library Governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets being depreciated:				
Land And Buildings	\$ 3,615,397	\$ 93,441	\$ 0	\$ 3,708,838
Furniture and equipment	568,814	48,314	0	617,128
Subtotal	4,184,211	141,755	0	4,325,966
Accumulated depreciaton:				
Land And Buildings	10,000	59,124	0	69,124
Furniture and equipment	363,608	41,387	0	404,995
Subtotal	373,608	100,511	0	474,119
Net capital assets	<u>\$ 3,810,603</u>	<u>\$ 41,244</u>	<u>\$ 0</u>	<u>\$ 3,851,847</u>

Portland District Library

Notes to Financial Statements

June 30, 2006

Note 5 – Capital Assets (Continued)

Depreciation expense of \$100,511 was charged to activities of the library.

Note 6– Long-Term Debt

Bonds, loan and contract payable at June 30, 2006 are comprised of the following:

General Obligation Bonds

Building and site bonds of 2,940,000 November 2004
due in annual installments of \$25,000 to \$225,000
through May, 2023; interest at 2.50% to 4.45%. \$ 2,760,000

The following is a summary of long-term transactions for the year ended June 30, 2006:

	Bonds Payable
Long-term debt payable at July 1, 2005	\$ 2,845,000
Additions	0
Deletions	(85,000)
Long-term debt payable at July 1, 2006	<u>\$ 2,760,000</u>

The annual requirements to amortize long-term debt outstanding as of June 30, 2006, including interest payments are as follows:

	Bonds Payable
2007	200,308
2008	212,932
2009	220,182
2010	226,882
2011	227,918
2012-2016	1,159,284
2017-2021	1,183,811
2022-2023	469,484
Total	<u>\$ 3,900,801</u>

Note 7 – Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The Library has purchased commercial insurance for all risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Portland District Library

Notes to Financial Statements

June 30, 2006

Note 8 – Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Library believes such amounts, if any to be minimal.

The Library is involved in lawsuits from time to time. The ultimate outcome of any of these lawsuits cannot be presently determined; and the amount of damages, if any, cannot be determined at this time.

Note 9 – Fund Balance Designations

The following fund balance amounts have been designated:

General Fund - \$335,410 for subsequent year's operations.

Required Supplemental Information

Portland District Library
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final	(Budgetary Basis)	Favorable (Unfavorable)
Revenues				
Property Taxes	\$ 232,710	\$ 232,710	\$ 244,264	\$ 11,554
Penal fines	99,569	99,569	91,146	(8,423)
Grants	8,400	8,400	14,715	6,315
Interest	4,000	4,000	9,578	5,578
Miscellaneous	16,250	16,250	53,150	36,900
Total Revenues	360,929	360,929	412,853	51,924
Expenditures				
Wages	177,699	177,699	169,979	7,720
Payroll taxes	13,170	13,170	14,327	(1,157)
Books	25,000	25,000	34,891	(9,891)
Periodicals	5,000	5,000	3,719	1,281
Supplies	6,500	6,500	5,301	1,199
Programs	2,000	2,000	2,033	(33)
Repairs and maintenance	20,600	20,600	28,310	(7,710)
Audio Visual	10,000	10,000	14,173	(4,173)
Computer Expense	24,500	24,500	10,780	13,720
Co-op fees	4,000	4,000	7,208	(3,208)
Insurance	8,740	8,740	11,431	(2,691)
Memberships and dues	500	500	720	(220)
Utilities	23,000	23,000	39,601	(16,601)
Professional services	7,000	7,000	7,980	(980)
Miscellaneous	68,220	68,220	2,297	65,923
Total Expenditures	395,929	395,929	352,750	43,179
Excess of Revenue Over (Under) Expenditures	(35,000)	(35,000)	60,103	95,103
Other Financing Sources (Uses)				
Transfers from other funds	0	0	28,448	28,448
Transfer to other funds	0	0	0	0
Total Other Financing Sources (Uses)	0	0	28,448	28,448
Excess (deficiency) of revenues over expenditures and other sources (uses)	(35,000)	(35,000)	88,551	123,551
Fund Balance, beginning of year	342,060	342,058	342,058	0
Fund balance, end of year	\$ 307,060	\$ 307,058	\$ 430,609	\$ 123,551

Other Supplemental Information

Portland District Library
Other Supplemental Information
Schedule of Bonded Debt
2003 Bonds
June 30, 2006

<u>Year Ended June 30</u>	<u>Interest Rate</u>	<u>Principal May 1</u>	<u>Interest November 1</u>	<u>Interest May 1</u>	<u>Total Debt Requirement</u>
2007	2.500%	\$ 95,000	\$ 52,654	\$ 52,654	\$ 200,308
2008	2.500%	110,000	51,466	51,466	212,932
2009	2.750%	120,000	50,091	50,091	220,182
2010	3.050%	130,000	48,441	48,441	226,882
2011	3.300%	135,000	46,459	46,459	227,918
2012	3.500%	140,000	44,231	44,231	228,462
2013	3.650%	145,000	41,781	41,781	228,562
2014	3.700%	155,000	39,135	39,135	233,270
2015	3.800%	160,000	36,268	36,268	232,536
2016	3.900%	170,000	33,227	33,227	236,454
2017	4.000%	175,000	29,913	29,913	234,826
2018	4.100%	185,000	26,412	26,413	237,825
2019	4.200%	190,000	22,620	22,620	235,240
2020	4.300%	200,000	18,630	18,630	237,260
2021	4.375%	210,000	14,330	14,330	238,660
2022	4.400%	215,000	9,736	9,736	234,472
2023	4.450%	225,000	5,006	5,006	235,012
Total		<u>\$ 2,760,000</u>	<u>\$ 570,400</u>	<u>\$ 570,401</u>	<u>\$ 3,900,801</u>

Purpose - To erect, furnish and equip a library building addition.

October 26, 2006

To the Library Board
Portland District Library
Portland, Michigan

We have recently completed our audit of the financial statements of the Portland District Library for the year ended June 30, 2006. As required by generally accepted auditing standards, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS

We conducted our audit of the general purpose financial statements of the Portland District Library in accordance with generally accepted auditing standards. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for the devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the general purpose financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the general purpose financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the general purpose financial statements is confined to the expression of an opinion on them. The general purpose financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those that have, on a relative basis, more importance to the general purpose financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective of an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an auditor provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion".

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

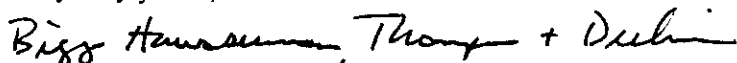
The significant accounting policies are described in Note 1 to the financial statements.

COMMENTS AND RECOMMENDATIONS

The general fund did experience some unfavorable budget variances during the year that should have been avoided with budget amendments. This year was the first full year with the building expansion in service so the Library now has a track record for what the additional operating costs will be. This should allow for more accurate budgeting of expenditures in the future.

We would like to express our appreciation for the cooperation extended to us by the Library officials during the course of the audit. It is a pleasure providing professional services to the Portland District Library.

Very truly yours,



BIGGS, HAUSSERMAN, THOMPSON & DICKINSON, P.C.
Certified Public Accountants

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